



Auditor of Public Accounts
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Edelen Releases Audit of Henry County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Henry County Fiscal Court for the fiscal year ended June 30, 2012. State law requires annual audits of county fiscal courts.

The audit found that the county's financial statements, in all material respects, fairly present the county's assets, liabilities, and net assets arising from cash transactions and revenues received and expenditures paid in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The county should improve controls over capital assets. During our review of controls over accounting for capital assets, we noted that the county does not perform capital asset inventory counts. In testing additions and deletions noted, we discovered the 2001 case backhoe was not removed from the insurance list when it was traded in for a new case backhoe.

We also noted the county is not maintaining capital assets records to include historical cost, salvage values, and depreciation, as applicable, for vehicles, equipment, buildings, infrastructure, construction in progress, etc.

When capital asset records are not maintained adequately and consistently, including being inventoried regularly, this significantly increases the risk that the county's assets are reported incorrectly due to errors or due to theft and that assets may be improperly insured. Governmental Accounting Standards Board Statement #34 requires that all capital assets be accounted for consistently for all asset types by a government entity.

We recommend the following:

- the county perform a comprehensive inventory count (including Sheriff and Clerk's capital assets) to ensure completeness of the current asset list and then establish and implement a policy for performing regular asset counts on at least an annual basis.
- the county develop and implement policies to ensure that all assets added to the list are insured, and those removed from the list are removed from insurance coverage in a timely manner, and
- the county develop capital assets schedules to maintain on an ongoing basis to track all assets, including vehicles, equipment, buildings, infrastructure and construction in progress, to include historical costs, salvage values, number of years owned, and depreciation as applicable.

County Judge/Executive Logan's response: County has done inventory counts. This is being done verbally but not documented by department heads and the Deputy Judge/Executive. The county will document the inventory county by each department head's signature and date on an annual basis.

The county has a lack of segregation of duties related to receipts and payroll. We noted during the review of internal controls related to receipts, that there is a lack of segregation of duties. We noted that the same person collects receipts, creates the deposit ticket, takes the deposit to the bank, records the receipts in the ledger and reconciles the bank account. There is no independent review done over these procedures.

In reviewing controls over payroll, we determined there is a lack of segregation of duties related to payroll. We noted that the same employee enters payroll data into the payroll system, reviews it and compares it against timesheets, prints checks, requests funds for payroll from the operating account, signs the payroll checks, and reconciles the payroll bank account. All of these procedures are done without an independent review.

When controls procedures are performed by the same employee and no compensating controls are in place, the risk for material misstatement significantly increases due to error or fraud that could occur without being detected.

We recommend the County separate the control functions related to receipts, or implement procedures to begin having these steps reviewed for accuracy. The review should be documented by initials of the reviewer on all documents reviewed. We also recommend the County either separate the functions related to payroll or begin implementing procedures for a review of each step with the reviewer initialing each document reviewed.

County Judge/Executive Logan's response: The Treasurer collects and records receipts and creates deposit tickets. The Judge/Executive or Deputy Judge/Executive take the deposit to the bank. Other comments taken under consideration.

The audit report can be found on the [auditor's website](#).

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